

**SOUTH CAROLINA
DEPARTMENT OF ALCOHOL
AND OTHER DRUG ABUSE SERVICES
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2002

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 5, 2003

The Honorable Mark Sanford, Governor
and
Mr. W. Lee Catoe, Director
South Carolina Department of Alcohol
and Other Drug Abuse Services
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Alcohol and Other Drug Abuse Services (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2002, in the areas addressed. The Department's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year and we used estimations and other procedures to determine the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

The Honorable Mark Sanford, Governor
and
Mr. W. Lee Catoe, Director
South Carolina Department of Alcohol
and Other Drug Abuse Services
June 5, 2003

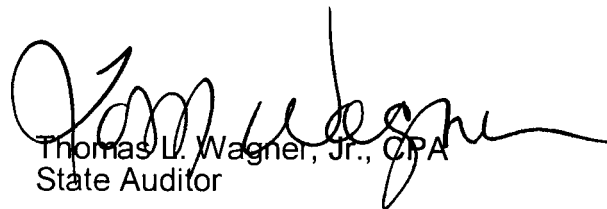
2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Department, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations; and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Rental Charges in the Accountant's Comments section of this report.
3. We tested selected recorded payroll disbursements to determine if the tested payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Payroll in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries and all operating and interagency appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The journal entries selected for testing were chosen judgmentally to include large, routine, and unusual transactions. We found no exceptions as a result of the procedures.

5. We tested selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2002, and tested selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or in STARS. We judgmentally selected the fiscal year-end reconciliations and randomly selected one month's reconciliations for testing. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.
7. We tested the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2002. Our findings as a result of these procedures are presented in Section A in the Accountant's Comments section of this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 2001, to determine if adequate corrective action has been taken. Our finding as a result of these procedures is presented in Reconciliations and Payroll (Pay at Termination of Employment) in the Accountant's Comments section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2002, prepared by the Department and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. We found no exceptions as a result of the procedures.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2002, prepared by the Department and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. We found no exceptions as a result of the procedures.

The Honorable Mark Sanford, Governor
and
Mr. W. Lee Catoe, Director
South Carolina Department of Alcohol
and Other Drug Abuse Services
June 5, 2003

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the management of the South Carolina Department of Alcohol and Other Drug Abuse Services and is not intended to be and should not be used by anyone other than these specified parties.


Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

PAYROLL

Pay at Termination of Employment

The Department incorrectly paid one of the nineteen employees tested who terminated employment during fiscal year 2002. The employee's salary was funded with federal funds received from the U.S. Department of Health and Human Services through the Block Grants for Prevention and Treatment of Substance Abuse program. According to documents contained in the employee's personnel file, the employee's resignation date was May 16, 2002. However, the last day the employee physically worked was May 9, 2002. The Department paid the employee for the entire pay period although she only worked six of the eleven days in the pay period, resulting in an overpayment of \$679. The Department also credited and paid the employee for 9.375 hours of accrued annual leave for May 2002 although she terminated employment after working only seven of the twenty-three workdays of the month, resulting in an overpayment of \$173. According to one of the Department's employees, the individual was compensated for a full pay period and was paid for unearned accrued annual leave because of the unique circumstances of the employee's termination. A similar finding was included in the fiscal year 2001 report.

Section 8-11-30 of the 1976 South Carolina Code of Laws, as amended, (the Code of Laws) states that it is unlawful for anyone to receive any salary from the State which is not due and for anyone employed by the State to pay salaries or monies that are not due. Any violation is punishable by a fine or imprisonment. Also, Section 8-11-660 of the Code of Laws prohibits employees from being credited with annual leave earnings for any month in which they are not in pay status for one half or more of the workdays of the month.

We recommend that the Department adhere to all State personnel and payroll laws and regulations including those covering employee pay at termination. We also recommend that the Department pursue recovery from the former employee of the amount overpaid. When collected, the funds should be remitted to the U.S. Department of Health and Human Services.

Employee Timesheet

The Department could not locate a timesheet for one out of the ten employees who began employment with the Department during the fiscal year. The employee was paid \$64 on November 1, 2001. The Department could not explain why the timesheet could not be located.

State Human Resources Regulation 19-707.01 requires each agency to keep an accurate record of all hours worked. Further, an effective system of internal controls includes control procedures to ensure that the entity prepares and maintains proper and adequate documentation in its employee files to support all personnel and payroll transactions.

Furthermore, the General Records Retention Schedules for Personnel Records of State Agencies prepared by the South Carolina Department of Archives and History states the following regarding time and attendance records:

12.420. Time and Attendance Records

A. Description: Records concerning time worked by agency employees during a pay period. Information includes employee's name, section or organization unit, employee number, pay period, total time worked, and employee's signature.

B. Retention: 3 years; destroy.

We recommend that the Department strengthen its policies and procedures to ensure all employee timesheets are properly maintained in accordance with applicable State and Departmental guidelines.

Employee Profiles

For three out of the twenty-five payroll transactions tested during our standard test of payroll, we noted that the funding sources reflected on the South Carolina Office of Human Resources (OHR) employee profiles did not agree to the funding sources recorded on the South Carolina Office of the Comptroller General's Payroll Warrant Register. Staff in the Department's Office of Human Resources indicated that the employee profiles did not reflect the correct funding sources because the changes to the funding sources were initiated in another division of the Department and were not communicated to them.

Also, for five out of the twenty-five payroll transactions tested, the employee profiles did not properly reflect all changes to gross salary for the fiscal year. This deficiency was also noted for two out of the nineteen employees tested who terminated employment during the fiscal year. According to management, the inaccuracies were due to clerical errors.

The employee profile is used to reflect and maintain statewide position and employee information. Therefore, it is critical that all information be reported on an accurate and timely basis.

We recommend that the Department establish procedures to properly reflect changes in its employees' salaries and funding sources. Further, the Department should implement procedures to ensure that its Office of Human Resources is promptly and accurately notified of all personnel transactions.

RECONCILIATIONS

The Department performed monthly reconciliations of revenues, expenditures, and ending cash balances in its internal accounting system to those in the State's system (STARS) for fiscal year 2002. However, during our review of those reconciliations, we noted that many of the reconciliations were not performed in a timely manner as noted below:

	<u>Reconciliation Month</u>	<u>Preparation Month</u>
Revenues:	July 2001	December 2001
	August 2001	December 2001
	September 2001	January 2002
	October 2001	February 2002
	November 2001	February 2002
	December 2001	
	through February 2002	April 2002
Expenditures:	July 2001	December 2001
	August 2001	December 2001
	September 2001	January 2002
	October 2001	February 2002
	November 2001	
	through February 2002	April 2002
	April 2002	June 2002
	May 2002	July 2002
	July 2002 (FM13)	September 2002
Cash Balances:	July 2001	December 2001
	August 2001	December 2001
	September 2001	January 2002
	October 2001	February 2002
	November 2001	
	through February 2002	April 2002
	April 2002	June 2002
	May 2002	July 2002
	July 2002 (FM13)	September 2002

A similar finding was included in the fiscal year 2001 report. Management indicated that the fiscal year 2002 reconciliations were not performed in a timely manner because of the implementation of a new accounting system on July 1, 2001.

Section 2.1.7.20C. of the Comptroller General's STARS Policies and Procedures (STARS Manual) requires that all agencies perform regular monthly reconciliations of revenues, expenditures, and ending cash balances between their accounting records and those in STARS balances as shown on STARS reports in order to timely detect and correct errors. These reconciliations must be performed at least monthly on a timely basis, be documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes, be signed and dated by the preparer, and be reviewed and approved in writing by an appropriate agency official other than the preparer. Also, the STARS Manual states that errors discovered through the reconciliation process must be promptly corrected in the agency's accounting records and/or STARS as appropriate.

We recommend that the Department develop and implement procedures to ensure that all required reconciliations are prepared and reviewed in a timely manner in accordance with the Comptroller General's guidelines.

LEGAL SERVICES

The Department paid \$6,800 for legal services that were not properly authorized by the South Carolina Attorney General's Office (AGO). The Department could not provide us with the "South Carolina Attorney General Request for Authorization to Employ Associate Counsel" (AGO approval form) authorizing legal services provided to the Department during fiscal year 2002. We were told that the form may have been misplaced, the Department may have received verbal authorization, or the Department may not have obtained the AGO's approval.

Proviso 32.3. of Part IB of the 2001-2002 Appropriation Act states the following:

No department or agency of the State Government shall engage on a fee basis any attorney at law except upon the written approval of the Attorney General and upon such fee as shall be approved by him. . .

We recommend that the Department establish and implement procedures to ensure that it obtains approval from the South Carolina Attorney General's Office prior to engaging an attorney on a fee basis, that it monitors services and cumulative costs under each approved procurement, and that it obtains advance approval for expansion of services and/or increased fees. Documentation of the AGO's authorization for procurement of legal services should be properly retained and maintained in the Department's records.

WELLNESS TIME-OFF PROGRAM

The Department's Annual Accountability Report for fiscal year 2001-2002 states that "DAODAS has enhanced its Wellness (Time-Off) Program by establishing a policy that allows employee time to be devoted to employee fitness, health, and wellness." According to Departmental personnel, the Wellness Time-Off Program was established over ten years ago to ensure a supportive, safe and healthy working environment for its employees. The Program allows employees to use one hour a week of department time, divided into two half-hour blocks (and matched by an equal amount of the staff member's personal time) to participate in an exercise program or other approved wellness activity. Each employee who elects to participate in the program must complete an 'Individual Wellness Plan' which must be approved by the staff member's supervisor and the deputy director.

The Department was unable to provide documentation authorizing the agency's policy of allowing employees time off to participate in the Wellness Time-Off Program. Regulation 19-707 of the State Human Resources Regulations states that the minimum full-time workweek for employees of agencies is 37.5 hours. However, the agency may vary an

employee's work schedule through the use of alternative scheduling strategies. The State Human Resources Regulations also describe categories of authorized leave. Based on our review and discussions with representatives of the State Budget and Control Board – Division of Budget and Analyses Office of Human Resources, State laws and regulations do not allow State agencies to grant employees time-off during working hours to participate in exercise or other wellness-type activities.

We, therefore, recommend that the Department discontinue its practice of allowing employees time-off during working hours to participate in its Wellness Time-Off Program. Employees should be required to use accrued annual leave if they participate in the Program during working hours. We also recommend that the Department's written policy be revised to reflect the changes in its established policy.

RENTAL CHARGES

The Department recorded approximately \$496,000 in total non-state owned real property rental expenditures and charged 62 percent to State General Fund appropriations, ten percent to earmarked funds, 19 percent to restricted funds, and nine percent to federal funds. The agency was funded from State, earmarked, restricted, and federal funds during fiscal year 2002.

According to the Department's policies, rental charges are to be allocated to the various funding sources based on the funding sources used to fund the salaries of the Department's employees. Using this method of allocating rental charges would have resulted in allocations of 45 percent, ten percent, and 45 percent to State, earmarked, and federal funds, respectively. We were told that the Department used more State funds to pay rental costs during fiscal year 2002 because the State funds would have lapsed to the State General Fund at the end of the fiscal year had they not been used. Thus, the funds would not have been

available for the agency's use after fiscal year end. The other funds on the other hand, were authorized to be carried forward and therefore, would be available during the subsequent fiscal year.

Proviso 72.38. of Part IB of the fiscal year 2002 Appropriation Act states, "All departments and agencies against which rental charges are assessed and whose operations are financed in whole or in part by federal and/or other non-appropriated funds are directed to apportion the payment of such charges equitably among all such funds, so that each shall bear its proportionate share."

We recommend that the Department allocate rental charges equitably among all of its funds in accordance with State laws and its established internal policies and procedures.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the the South Carolina Department of Alcohol and Other Drug Abuse Services for the fiscal year ended June 30, 2001, and dated August 29, 2002. We determined that the Department has taken adequate corrective action on the comments entitled Transfers and GAAP Closing Packages. Continuing deficiencies are described in Payroll (Pay at Termination of Employment) and Reconciliations in Section A of the Accountant's Comments in this report.

MANAGEMENT'S RESPONSE



South Carolina Department of Alcohol and Other Drug Abuse Services

MARK SANFORD
Governor

W. LEE CATOE
Director

October 16, 2003

Mr. Thomas L. Wagner Jr., CPA
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Wagner:

The South Carolina Department of Alcohol and Other Drug Abuse Services (DAODAS) has prepared the following responses to the findings of the Fiscal Year 2002 (FY02) Agreed Upon Procedures Engagement. The assessment of these comments was hampered by the fact that the actions in question took place under a different departmental administration. However, we are comfortable with our responses on these matters, and we authorize the release of the report.

1. PAY AT TERMINATION OF EMPLOYMENT

DAODAS will take appropriate steps to ensure adherence to all State personnel and payroll laws and regulations, including those covering employee pay at termination. We will evaluate the circumstances surrounding the cited incident and determine if it is in the best interest of the department to recover the funds in question.

2. EMPLOYEE TIMESHEET

DAODAS will review its policies and procedures to ensure that all employee timesheets are properly maintained in accordance with applicable State and departmental guidelines.

3. EMPLOYEE PROFILES

DAODAS will review and update its procedures – to include quarterly reviews – to ensure that its Office of Human Resources is informed of all personnel transactions. DAODAS will also conduct an extensive and thorough audit of all employee profiles to ensure that they agree with the agency payroll.

4. RECONCILIATIONS

DAODAS will develop and implement procedures for the preparation and review of monthly reconciliations within six weeks of each month's closeout.

5. LEGAL SERVICES

DAODAS will ensure that approval is obtained from the South Carolina Attorney General's Office (AGO) prior to engaging an attorney on a fee basis. The department will also maintain documentation of the AGO's authorization for the procurement of any legal services.

6. WELLNESS TIME-OFF PROGRAM

DAODAS will discontinue its practice of allowing employees time off during working hours to participate in its Wellness Time-Off Program, effective November 1, 2003. The department's written policy will be revised to reflect this change.

7. RENTAL CHARGES

DAODAS will comply with this recommendation and will review and possibly revise its cost allocation. If the cost allocation is revised, it will be in accordance with Proviso 72.38. of Part IB of the FY02 Appropriation Act.

We look forward to continued improvement in our financial management, procedures and compliance.

Sincerely,

W. Lee Catoe
Director

WLC/lr/jmm

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